

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 NSCE-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01

INR-05 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01

SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 PA-01

PRS-01 USIA-06 SAJ-01 NIC-01 /088 W

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R 200740Z DEC 74

FM USLO PEKING

TO SECSTATE WASHDC 3007

INFO AMCONSUL HONG KONG

AMEMBASSY MANILA

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ETRD ENRG CH RP JA

SUBJECT: PRC OIL: SHENGLI CRUDE

REF: A. HONG KONG 13393 (NOTAL); B. PEKING 2283 (NOTAL)

1. SUBSEQUENT TO REFTELS, USLO OFFICERS HAVE DISCUSSED SHENGLI CRUDE WITH A HONG KONG-BASED EXXON REPRESENTATIVE (SEARLS) WHO IS NOW VISITING PEKING FOR TALKS ON CONTINUATION OF EXXON BUNKERING SERVICES FOR PRC SHIPPING AND ON OTHER POSSIBLE PRC-EXXON BUSINESS.

2. THE EXXON REPRESENTATIVE HAS RECEIVED A DETAILED AND CONFIDENTIAL ANALYSIS OF THE SHENGLI CRUDE WHICH HAS BEEN EXPORTED TO THE PHILIPPINES FROM EXXON'S OFFICE THERE. ACCORDING TO THE ANALYSIS, THE MAJOR PROBLEM WITH SHENGLI CRUDE IS ITS HIGH SALT CONTENT. THE OIL CONTAINS ABOUT 100 POUNDS OF SALT PER 500 BARRELS, AS OPPOSED TO 10-15

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POUNDS SALT FOR THE SAME AMOUNT OF MIDDLE EASTERN CRUDE.

SALT LEVELS OF THIS MAGNITUDE RESULT IN MAJOR ADVERSE CORROSIVE EFFECT ON REFINING EQUIPMENT OVER THE LONG TERM. IN ORDER TO CORRECT THE DEFICIENCY, DESALTING MEASURES ARE NECESSARY, INCLUDING CERTAIN STEPS WHICH SHOULD BE DONE AT POINT OF ORIGIN. IN THE ABSENCE OF SUCH MEASURES, SHENGLI CRUDE MUST BE BLENDED WITH OTHER CRUDES, AT A RATIO OF 10-15 PERCENT SHEGLI TO 85-90 PERCENT OTHER.

3. THE PHILIPPINE SHENGLI SAMPLE IS HIGHER IN SULPHUR CONTENT THAN TACHING AND TAKANG CRUDE, BUT COMPARED TO MIDDLE EAST OIL THE SULPHUR CONTENT IS STILL LOW. IN CONTRAST TO OUR REPORT (REF B) THE EXXON REPRESENTATIVE SAID THE PARAFFIN CONTENT OF THE SHENGLI SAMPLE, THOUGH SLIGHTLY HIGH, IS NOT A MAJOR PROBLEM. HOWEVER, BECAUSE OF THE SALT PROBLEM, HE CONSIDERS THE PHILIPPINE PURCHASE A VERY BAD DEAL UNLESS THE PRICE, WHICH IS UNKNOWN, WAS APPROPRIATELY LOW.

4. ADDITIONAL INFORMATION OBTAINED FROM THE EXXON REPRESENTATIVE IS THAT TACHING CRUDE IN TERMS OF VALUE TO REFINERS IS WORTH ABOUT SIXTY TO EIGHTY CENTS LESS PER BARREL THAN INDONESIAN MINAS CRUDE. FOR SHENGLI CRUDE, THE PER-BARRELL DIFFERENTIAL WOULD BE CLOSE TO FOUR DOLLARS IN FAVOR OF THE INDONESIAN PRODUCT.

5. COMMENT: TO DATE THE CHINESE HAVE BEEN OBTAINING FROM JAPANESE IMPORTERS THE SAME PRICE FOR TACHING CRUDE AS THE JAPANESE PAY FOR INDONESIAN OIL. RECENTLY, HOWEVER, OUR JAPANESE COLLEAGUES HAVE ALLUDED TO THE POSSIBILITY THAT JAPAN WOULD BEGIN TO PRESS FOR A LOWER-THAN-MINA PRICE FOR PRC OIL. THIS WOULD BE UNDERSTANDABLE IF THE EXXON COST COMPARISON FIGURES ARE CORRECT.

6. ADDRESSEES ARE REMINDED THAT THE INFORMATION PROVIDED ABOVE IS CONSIDERED COMMERCIALY SENSITIVE BY EXXON AND SHOULD NOT BE DISCUSSED OUTSIDE USG.
BUSH

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